

## Message Text

LIMITED OFFICIAL USE

PAGE 01 STATE 159389  
ORIGIN EB-07

INFO OCT-01 EA-07 ISO-00 COME-00 LAB-04 AGRE-00  
CIAE-00 INR-07 NSAE-00 EPG-02 SP-02 STR-04  
TRSE-00 FRB-03 OMB-01 L-03 /041 R

DRAFTED BY EB/FTD:CANGEVINE:HM  
APPROVED BY EB/FTD:CANGEVINE  
COMMERCE - AGAREL (INFO)  
LABOR - EHABBERTON (INFO)  
EA/PRCM-MVBRIESEN (INFO)  
-----118127 090311Z /62  
P 082228Z JUL 77  
FM SECSTATE WASHDC  
TO AMCONSUL HONG KONG PRIORITY

LIMITED OFFICIAL USE STATE 159389

E.O. 11652:N/A

TAGS:ETRD, HK

SUBJECT: U.S. - HONG KONG TEXTILE NEGOTIATIONS.

REF: A.STATE 155953 B. HONG KONG 7780 C. HONG KONG 7018  
-- D. HONG KONG 7508

1. REPORTS FROM CONGEN AND REQUEST LAST WEEK FROM HONG KONG REPRESENTATIVES HERE FOR CLARIFICATION OF U.S. POSITION ON GROWTH RATES POINT TO SOME AMBIVALENCE ON THE PART OF HONG KONG REGARDING CONCLUSION AND RATIFICATION OF BILATERAL AGREEMENT BASED ON GENERAL UNDERSTANDINGS REACHED BY DELEGATIONS OF TWO GOVERNMENTS IN GENEVA. HONG KONG'S UNCERTAINTY ABOUT WHETHER TO PROCEED WITH PROPOSED AGREEMENT FOLLOWS PROTRACTED AND STRONGLY CONTESTED NEGOTIATIONS IN WHICH BOTH SIDES MADE SIGNIFI-  
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 STATE 159389

CANT CONCESSIONS. WITH THIS STAGE OF THE NEGOTIATIONS NOW OVER, HONG KONG AUTHORITIES MUST NOW DECIDE WHETHER THEY WISH TO PROCEED ON BASIS OF UNDERSTANDINGS REACHED OR NOT. WASHINGTON AGENCIES REGARD THIS DECISION AS AN INTERNAL ONE FOR HONG KONG IN WHICH INVOLVEMENT BY U.S. OFFICIALS WOULD NOT BE HELPFUL.

2. DISCUSSIONS WITH CHIEF TEXTILE NEGOTIATOR PETER TSAO IN GENEVA MADE CLEAR THAT HE CONSIDERS AGREEMENT CONSISTENT WITH OVERALL PROVISIONS OF MFA. CERTAINLY U.S. CONSIDERS THIS TO BE THE CASE. MOREOVER, CAREFUL READING OF STATEMENT BY SECRETARY MARSHALL (SEE PARA 9) WHICH DORWARD REFERRED TO SHOWS THERE IS NO INCONSISTENCY BETWEEN AGREEMENT NEGOTIATED WITH HONG KONG AND POSITION OF U.S. ADMINISTRATION.

3. U.S. - HONG KONG INITIALED AGREEMENT AD REFERENDUM ON JUNE 23. THE KEY PROVISIONS INCLUDE A STANDSTILL IN GROWTH FOR THE FIRST YEAR, SLIGHTLY LOWER THAN PRESENT OVERALL GROWTH IN SUCCEEDING YEARS, SHARPLY REDUCED GROWTH IN IMPACTED CATEGORIES, A TIGHTER VISA SYSTEM WHICH IS AKIN TO IMPORT CONTROLS, AND EFFECTIVE HONG HONG ACCEPTANCE OF NEW U.S. CATEGORY SYSTEM. THE GENERAL PROVISIONS MORE THAN FULFILL U.S. NEGOTIATING MANDATE AND SHOULD SUBSTANTIALLY IMPROVE CHANCES FOR MFA RENEWAL WITH NO CHANGES.

4. THE KEY PROVISIONS ARE THOSE DEALING WITH GROWTH. ON APPROXIMATELY 50 PERCENT OF OVERALL 958 MILLION YARD LEVEL, WE HAVE ACHIEVED AN ANNUAL GROWTH REDUCTION FROM 6.25 PERCENT TO 3 PERCENT AND AN EFFECTIVE ANNUAL GROWTH RATE OF 2.4 PERCENT OVER THE FIVE YEARS. THIS GROWTH RATE APPLIES ALMOST COMPLETELY TO APPAREL AND UNIFORMLY LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 STATE 159389

TO SEVERELY IMPACTED CATEGORIES. ON THE ENTIRE 958 MILLION YARD LEVEL, WE HAVE A REDUCTION FROM 6.25 PERCENT TO AN EFFECTIVE ANNUAL GROWTH RATE OF 4.77 PERCENT.

5. OF PARTICULAR SIGNIFICANCE IS THE FACT THAT FOR THE FIRST YEAR THERE IS NO GROWTH IN ANY CATEGORY. THIS WAS ACHIEVED BY HONG KONG TACITLY ACCEPTING U.S. POSITION THAT THE NEW BILATERAL IS A COMPLETELY SEPARATE AGREEMENT AND, AS SUCH, DOES NOT REQUIRE THAT GROWTH BE GRANTED BETWEEN THE TWO SEPARATE AGREEMENTS. HENCE WE WERE ABLE TO GET THE "ENTRY LEVEL" FOR 1978 (FIRST YEAR OF THE NEW AGREEMENT) AT THE SAME LEVEL AS 1977 (THE LAST YEAR OF THE OLD AGREEMENT). HONG KONG, ON THE OTHER HAND, CAN PRESENT NEW FIVE-YEAR AGREEMENT AS PROVIDING GUARANTEED ACCESS TO U.S. MARKET AND 6 PERCENT GROWTH DURING LIFE OF AGREEMENT, I.E., FROM 1978 THROUGH 1982.

6. TSAO HAS GIVEN MIXED SIGNALS TO U.S. DEL RE CURRENT STATUS OF RATIFICATION PROCEEDINGS IN HONG KONG. ON

ONE HAND, TSAO HAS SAID HKG ANXIOUS FOR BOTH GOVERNMENTS

TO INDICATE FINAL APPROVAL OF AGREEMENT ASAP AND STRONG DESIRE TO RELEASE DETAILS AS SOON AS AGREEMENT REACHED AND PRIOR TO FORMAL EXCHANGE OF DIPLOMATIC NOTES. ON THE OTHER HAND, TSAO HAS NOT YET INFORMED U.S. DEL THAT HKG IS ITSELF READY TO SIGN.

7. TSAO TENDS TO DISCOUNT IMPLIED THREAT THAT HKG WOULD NOT SIGN AGREEMENT UNTIL SATISFACTORY RESPONSE RECEIVED TO DORWARD'S SPEAKING NOTE, BUT HAD INDICATED HIS BEING LIEF THAT DORWARD WILL SET GREAT STORE ON RECEIVING SOME TYPE OF FORMAL RESPONSE.

8. INFORMAL RESPONSE WAS PROVIDED IN COURSE OF NEGOTIATIONS WHEN, IN RESPONSE TO DIRECT QUERY BY TSAO, LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 04 STATE 159389

U.S. CHIEF NEGOTIATOR SMITH RESPONDED AS FOLLOWS: "(A) MR. MARSHALL WAS TRYING TO SAY TO THE INTERNATIONAL LADIES' GARMENT WORKERS UNION THAT THE U.S. POLICY ON THE MFA REMAINED UNCHANGED; AND (B) HE (THE CHIEF NEGOTIATOR) WAS NOT SEEKING AN AGREEMENT INCONSISTENT WITH THE ARRANGEMENT REGARDING INTERNATIONAL TRADE IN TEXTILES."

9. IN SUMMARY, U.S. HAS NEGOTIATED TOUGH BUT FAIR AGREEMENT WITH HONG KONG; U.S. BELIEVES AGREEMENT CONSISTENT WITH MFA; AND WILLINGNESS OF HONG KONG TO INITIAL AGREEMENT IS SEEN AS CLEAR INDICATION THAT HKG DOES ALSO; NONETHELESS, DORWARD IS CONTINUING TO INSIST ON SOME RESPONSE; THEREFORE, RECOMMEND CONGEN SEND FOLLOWING MESSAGE TO DORWARD ASAP.

QUOTE. REFERENCE YOUR SPEAKING NOTE OF JUNE 17, I AM PLEASED TO RESPOND ON BEHALF OF THE UNITED STATES GOVERNMENT.

THE UNITED STATES GOVERNMENT HAS CAREFULLY REVIEWED THE MEMORANDUM OF UNDERSTANDING INITIALED BETWEEN U.S. AND HONG KONG REPRESENTATIVES IN GENEVA ON JUNE 23 AND FINDS THE AGREEMENT ENTIRELY CONSISTENT WITH BOTH THE MFA AND ADMINISTRATION POLICY AS REFLECTED IN THE JUNE SPEECH BY SECRETARY OF LABOR MARSHALL TO WHICH YOU DREW MY ATTENTION. FOR YOUR INFORMATION THE EXACT LANGUAGE USED BY SECRETARY MARSHALL IS AS FOLLOWS:

BEGIN EXCERPTS. I KNOW THAT YOU (MEMBERS OF THE INTERNATIONAL LADIES' GARMENT WORKERS UNION) ARE NOT ENTIRELY HAPPY WITH THE RESULTS OF THE MULTIFIBER

ARRANGEMENT. THE GROWTH CLAUSE IN THIS AGREEMENT ALLOWS LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 05 STATE 159389

IMPORTS TO INCREASE AT A RATE OF 6 PERCENT PER YEAR. MEANWHILE, THE DOMESTIC TEXTILE INDUSTRY HAS BEEN GROWING AT LESS THAN 3 PERCENT A YEAR. IDEALLY, THE MOST EFFECTIVE SOLUTION TO THIS PROBLEM IS TO RENEGOTIATE THIS PORTION OF THE AGREEMENT. UNFORTUNATELY, THIS MAY BE DIFFICULT TASK.

... THE MULTIFIBER ARRANGEMENT IS LESS IMPORTANT IN ITSELF THAN IT IS IN ALLOWING US TO NEGOTIATE BILATERAL AGREEMENTS WITH INDIVIDUAL COUNTRIES. THIS YEAR WE WILL BE NEGOTIATING ELEVEN SEPARATE BILATERAL AGREEMENTS. THE NEGOTIATIONS WITH HONG KONG ARE CURRENTLY UNDER WAY. REPRESENTATIVES OF THE LABOR DEPARTMENT, WHO ARE KEENLY CONCERNED ABOUT PRESERVING AMERICAN JOBS, ARE PART OF OUR NEGOTIATING TEAM. IT IS OUR HOPE THAT THESE INDIVIDUAL AGREEMENTS WILL GIVE OUR DOMESTIC TEXTILE AND APPAREL INDUSTRIES THE RELIEF THAT THEY SO CLEARLY NEED. END EXCERPTS.

YOU WILL NOTE THE THRUST OF SECRETARY MARSHALL'S STATEMENT EMBODIES THE BASIC PRINCIPLES OF U.S. POLICY IN THE TEXTILE TRADE AREA, NAMELY, THAT NO CHANGES NEED TO BE MADE IN THE MFA TO ENABLE TRADING PARTNERS TO WORK OUT MUTUALLY SATISFACTORY AGREEMENTS WHICH MEET THEIR SPECIFIC PROBLEMS -- AND TO NEGOTIATE THESE AGREEMENTS WITHIN THE FRAMEWORK OF THE MFA. THE U.S. HAS, AS YOU KNOW, CONSISTENTLY HELD THIS POSITION SINCE EARLY 1976, IT HOLDS THAT POSITION TODAY; AND THE US IS ACTIVELY PURSUING THIS POLICY OBJECTIVE IN THE CURRENT MFA RENEWAL NEGOTIATIONS NOW UNDER WAY IN THE TEXTILES COMMITTEE IN GENEVA.

YOU WILL RECALL THAT OUR CHIEF TEXTILE NEGOTIATOR, MICHAEL B. SMITH, INFORMED YOUR CHIEF NEGOTIATOR, PETER TSAO, DURING THE COURSE OF THE NEGOTIATIONS THAT THE U.S. POSITION WITH RESPECT TO THE AGREEMENT WHICH HAD LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 06 STATE 159389

BEEN AGREED UPON IN OUTLINE WAS THAT HE (SMITH) WAS NOT SEEKING AN AGREEMENT INCONSISTENT WITH THE MFA.

I WOULD LIKE TO TAKE THIS OPPORTUNITY TO RECONFIRM THAT POSITION AND TO STATE FURTHER THAT IT IS THE BELIEF OF MY GOVERNMENT THAT THE AGREEMENT REACHED BETWEEN THE U.S. AND HONG KONG IS FULLY CONSISTENT BOTH WITH U.S.

POLICY AND WITH THE PROVISIONS OF THE MFA. END QUOTE. VANCE

LIMITED OFFICIAL USE

NNN

## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01-Jan-1994 12:00:00 am  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** TEXTILES, AGREEMENTS, NEGOTIATIONS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Sent Date:** 08-Jul-1977 12:00:00 am  
**Decaption Date:** 01-Jan-1960 12:00:00 am  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 22 May 2009  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1977STATE159389  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** CANGEVINE:HM  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Expiration:**  
**Film Number:** D770244-0287  
**Format:** TEL  
**From:** STATE  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1977/newtext/t19770775/aaaacnwh.tel  
**Line Count:** 225  
**Litigation Code IDs:**  
**Litigation Codes:**  
**Litigation History:**  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Message ID:** ac9c8a6e-c288-dd11-92da-001cc4696bcc  
**Office:** ORIGIN EB  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 5  
**Previous Channel Indicators:** n/a  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** 77 STATE 155953  
**Retention:** 0  
**Review Action:** RELEASED, APPROVED  
**Review Content Flags:**  
**Review Date:** 10-Jan-2005 12:00:00 am  
**Review Event:**  
**Review Exemptions:** n/a  
**Review Media Identifier:**  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**SAS ID:** 1916396  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** U.S. - HONG KONG TEXTILE NEGOTIATIONS.  
**TAGS:** ETRD, HK  
**To:** HONG KONG  
**Type:** TE  
**vdkgvwkey:** odb://SAS/SAS.dbo.SAS\_Docs/ac9c8a6e-c288-dd11-92da-001cc4696bcc  
**Review Markings:**  
Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
22 May 2009  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009